

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Siegfried Crandall P.C.</i>			Date	

Township of Otsego
Allegan County, Michigan
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
Year ended March 31, 2005

CONTENTS

Page

INDEPENDENT AUDITORS' REPORT

BASIC FINANCIAL STATEMENTS

Government-wide financial statements:

Statement of net assets	5
Statement of activities	6

Fund financial statements:

Balance sheet - governmental funds	7
Statement of revenues, expenditures, and changes in fund balances - governmental funds	8
Statement of net assets - proprietary fund	9
Statement of revenues, expenses, and changes in fund net assets - proprietary fund	10
Statement of cash flows - proprietary fund	11 - 12
Statement of fiduciary net assets - agency fund	13

Notes to financial statements	14 - 22
-------------------------------	---------

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary comparison schedules:

General Fund	23 - 24
Cemetery Fund	25

SUPPLEMENTARY DATA

Schedule of debt retirement and annual interest requirements	26 - 27
--	---------

INDEPENDENT AUDITORS' REPORT

**Board of Trustees
Township of Otsego, Michigan**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Otsego, Michigan, as of March 31, 2005, and for the year then ended, which collectively comprise the Township's basic financial statements, as listed in the contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Township of Otsego, Michigan, as of March 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 12, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of April 1, 2004.

The budgetary comparison information on pages 23 through 25, are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Township of Otsego, Michigan has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Otsego, Michigan's, basic financial statements. The supplementary data, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Siegfried Crandall P.C.

April 19, 2005

BASIC FINANCIAL STATEMENTS

Township of Otsego
STATEMENT OF NET ASSETS
March 31, 2005

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 566,086	\$ 613,687	\$ 1,179,773
Receivables, net	125,670	69,482	195,152
Total current assets	<u>691,756</u>	<u>683,169</u>	<u>1,374,925</u>
Noncurrent assets:			
Receivables, net	-	360,332	360,332
Bond issuance costs	-	38,869	38,869
Capital assets, net of accumulated depreciation	<u>617,427</u>	<u>4,714,376</u>	<u>5,331,803</u>
Total noncurrent assets	<u>617,427</u>	<u>5,113,577</u>	<u>5,731,004</u>
Total assets	<u>1,309,183</u>	<u>5,796,746</u>	<u>7,105,929</u>
LIABILITIES			
Current liabilities:			
Payables	33,541	14,436	47,977
Noncurrent liabilities:			
Contracts payable	<u>-</u>	<u>1,885,000</u>	<u>1,885,000</u>
Total liabilities	<u>33,541</u>	<u>1,899,436</u>	<u>1,932,977</u>
NET ASSETS			
Invested in capital assets, net of related debt	617,427	2,829,376	3,446,803
Restricted for public works	101,682	-	101,682
Unrestricted	<u>556,533</u>	<u>1,067,934</u>	<u>1,624,467</u>
Total net assets	<u>\$ 1,275,642</u>	<u>\$ 3,897,310</u>	<u>\$ 5,172,952</u>

See notes to the financial statements

Township of Otsego
STATEMENT OF ACTIVITIES
Year ended March 31, 2005

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Governmental activities:				
Legislative	\$ 5,170	\$ -	\$ -	\$ -
General government	397,688	92,201	-	-
Public safety	202,555	79,812	-	-
Public works	134,755	1,847	6,335	-
Community and economic development	29,108	8,750	-	-
Culture and recreation	14,000	-	-	-
Total governmental activities	<u>783,276</u>	<u>182,610</u>	<u>6,335</u>	<u>-</u>
Business-type activities:				
Public Utilities	<u>586,897</u>	<u>333,191</u>	<u>-</u>	<u>267,268</u>
Totals	<u>\$ 1,370,173</u>	<u>\$ 515,801</u>	<u>\$ 6,335</u>	<u>\$ 267,268</u>

General revenues:

Property taxes
State grants
Franchise fees
Interest income
Other
Transfers

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

Net (expense) revenue and changes in net assets

<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
\$ (5,170)		\$ (5,170)
(305,487)		(305,487)
(122,743)		(122,743)
(126,573)		(126,573)
(20,358)		(20,358)
<u>(14,000)</u>		<u>(14,000)</u>
<u>(594,331)</u>		<u>(594,331)</u>
	\$ 13,562	13,562
<u>(594,331)</u>	<u>13,562</u>	<u>(580,769)</u>
191,367	-	191,367
340,988	-	340,988
10,254	-	10,254
15,233	27,059	42,292
5,346	-	5,346
<u>(25,000)</u>	<u>25,000</u>	<u>-</u>
<u>538,188</u>	<u>52,059</u>	<u>590,247</u>
(56,143)	65,621	9,478
<u>1,331,785</u>	<u>3,831,689</u>	<u>5,163,474</u>
<u>\$ 1,275,642</u>	<u>\$ 3,897,310</u>	<u>\$ 5,172,952</u>

See notes to the financial statements

Township of Otsego
BALANCE SHEET - governmental funds
 March 31, 2005

	<u>General</u>	<u>Cemetery</u>	<u>Nonmajor governmental fund Trash</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 538,173	\$ 27,913	\$ -	\$ 566,086
Receivables, net	<u>70,863</u>	<u>54,807</u>	<u>-</u>	<u>125,670</u>
Total assets	<u>\$ 609,036</u>	<u>\$ 82,720</u>	<u>\$ -</u>	<u>\$ 691,756</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	<u>\$ 33,541</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,541</u>
Fund balances:				
Reserved for:				
Trash collection	95,347	-	-	95,347
Right-of-way expenditures	6,335	-	-	6,335
Unreserved	<u>473,813</u>	<u>82,720</u>	<u>-</u>	<u>556,533</u>
Total fund balances	<u>575,495</u>	<u>82,720</u>	<u>-</u>	<u>658,215</u>
Total liabilities and fund balances	<u>\$ 609,036</u>	<u>\$ 82,720</u>	<u>\$ -</u>	

Amounts reported for *governmental activities* in the statement of net assets (page 5) are different because:

Capital assets used in *governmental activities* are not financial resources and, therefore, are not reported in the funds.

617,427

Net assets of *governmental activities*

\$ 1,275,642

Township of Otsego

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - governmental funds**

Year ended March 31, 2005

	<u>General</u>	<u>Cemetery</u>	<u>Nonmajor governmental fund Trash</u>	<u>Total governmental funds</u>
REVENUES				
Taxes	\$ 160,374	\$ -	\$ 30,993	\$ 191,367
Licenses and permits	90,196	-	-	90,196
State grants	347,323	-	-	347,323
Contribution from local unit	-	54,807	-	54,807
Charges for services	15,640	28,849	-	44,489
Interest and rentals	16,277	481	-	16,758
Other	7,143	50	-	7,193
Total revenues	<u>636,953</u>	<u>84,187</u>	<u>30,993</u>	<u>752,133</u>
EXPENDITURES				
Legislative	5,170	-	-	5,170
General government	226,337	149,621	-	375,958
Public safety	163,109	-	-	163,109
Public works	134,755	-	-	134,755
Community and economic development	29,108	-	-	29,108
Recreation and culture	14,000	-	-	14,000
Capital outlay	6,855	414	-	7,269
Total expenditures	<u>579,334</u>	<u>150,035</u>	<u>-</u>	<u>729,369</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>57,619</u>	<u>(65,848)</u>	<u>30,993</u>	<u>22,764</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	30,993	80,000	-	110,993
Transfers out	(105,000)	-	(30,993)	(135,993)
Total other financing sources (uses)	<u>(74,007)</u>	<u>80,000</u>	<u>(30,993)</u>	<u>(25,000)</u>
NET CHANGE IN FUND BALANCES	<u>(16,388)</u>	<u>14,152</u>	<u>-</u>	<u>(2,236)</u>
FUND BALANCES - BEGINNING	<u>591,883</u>	<u>68,568</u>	<u>-</u>	<u>660,451</u>
FUND BALANCES - ENDING	<u>\$ 575,495</u>	<u>\$ 82,720</u>	<u>\$ -</u>	<u>\$ 658,215</u>
Net change in fund balances - total governmental funds				\$ (2,236)

Amounts reported for *governmental activities* in the statement of activities (page 6) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation \$(60,423) exceeded capital outlays \$(6,516) in the current period.

(53,907)

Change in net assets of *governmental activities*

\$ (56,143)

See notes to the financial statements

Township of Otsego
STATEMENT OF NET ASSETS - proprietary fund
 March 31, 2005

	<u>Public Utilities</u>
ASSETS	
Current assets:	
Cash	\$ 613,687
Receivables, net	<u>69,482</u>
Total current assets	<u>683,169</u>
Noncurrent assets:	
Receivables, net	360,332
Bond issuance costs	38,869
Capital assets, net of accumulated depreciation	<u>4,714,376</u>
Total noncurrent assets	<u>5,113,577</u>
Total assets	<u>5,796,746</u>
LIABILITIES	
Current liabilities:	
Payables	14,436
Noncurrent liabilities:	
Contracts payable	<u>1,885,000</u>
Total liabilities	<u>1,899,436</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,829,376
Unrestricted	<u>1,067,934</u>
Total net assets	<u>\$ 3,897,310</u>

See notes to the financial statements

Township of Otsego
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - *proprietary funds*
Year ended March 31, 2005

	<u>Public Utilities</u>
OPERATING REVENUES	
Charges for services	\$ 333,191
OPERATING EXPENSES	
Salaries	40,000
Payroll taxes	3,060
Pension	4,227
Professional fees	44,002
Insurance	15,779
Utilities	10,453
Supplies and maintenance	31,854
Sewage flow	200,949
Depreciation	102,390
Amortization	17,000
Other	1,329
Total operating expenses	471,043
Operating loss	(137,852)
NONOPERATING REVENUES (EXPENSES)	
Interest revenue:	
Special assessments	21,813
Other	5,246
Debt retirement charges	120,322
Development fees	146,946
Interest expense and fiscal charges	(115,854)
Total nonoperating revenues	178,473
INCOME BEFORE OPERATING TRANSFERS	40,621
TRANSFER IN - GENERAL FUND	25,000
CHANGE IN NET ASSETS	65,621
NET ASSETS - BEGINNING	3,831,689
NET ASSETS - ENDING	\$ 3,897,310

See notes to the financial statements

Township of Otsego
STATEMENT OF CASH FLOWS - proprietary fund
Year ended March 31, 2005

	<u>Public Utilities</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 329,691
Payments to vendors and suppliers	(316,654)
Payments to employees	<u>(40,000)</u>
Net cash used in operating activities	<u>(26,963)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Operating transfer in	<u>25,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Receipt of debt retirement charges	120,322
Receipt of development fees	146,946
Collection of special assessment principal	45,121
Collection of special assessment interest	21,813
Decrease in due from other governmental units	214,085
Proceeds from issuance of debt	645,000
Bond issuance costs	(38,869)
Principal payments on long-term debt	(1,010,000)
Interest payments on long-term debt	<u>(115,854)</u>
Net cash provided by capital and related financing activities	<u>28,564</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>5,246</u>
NET INCREASE IN CASH	31,847
CASH - BEGINNING	<u>581,840</u>
CASH - ENDING	<u><u>\$ 613,687</u></u>

See notes to the financial statements

Township of Otsego
STATEMENT OF CASH FLOWS - proprietary fund (Continued)
Year ended March 31, 2005

**Public
Utilities**

**Reconciliation of operating loss to net cash used in
operating activities:**

Operating loss	\$ (137,852)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	102,390
Amortization	17,000
Increase in receivables	(3,500)
Decrease in payables	<u>(5,001)</u>
Net cash used in operating activities	<u>\$ (26,963)</u>

See notes to the financial statements

Township of Otsego

STATEMENT OF FIDUCIARY NET ASSETS - *agency fund*

March 31, 2005

ASSETS

Cash	\$ <u>30,364</u>
------	------------------

LIABILITIES

Payables	\$ <u>30,364</u>
----------	------------------

See notes to the financial statements

Township of Otsego
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Township of Otsego, Michigan (the Township), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies.

a) Reporting entity:

The accompanying financial statements present only the Township. There are no component units, entities for which the Township is considered to be financially accountable.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Township. The effect of inter-fund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Township of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the government.

The Township reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the Township, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Cemetery Fund accounts for the financial resources used for the operational costs of the Township's cemeteries. Revenues are primarily derived from charges for services and contributions from a local unit.

The Township reports the following major proprietary fund:

The Public Utilities Fund accounts for the activities of the Township's sewage collection and water distribution systems.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Township has elected not to follow subsequent private-sector standards.

The Township reports a single fiduciary fund, its Agency Fund, which accounts for assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Township of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Township considers all receivables to be fully collectible.

iii) Capital assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Governments can elect to account for infrastructure assets either retroactively to June 15, 1980, or prospectively. The Township has elected to account for infrastructure assets prospectively, beginning April 1, 2004.

The Township includes shared fire vehicle costs in the intangible assets of its governmental activities. These costs represent the Township's portion of fire vehicles that are owned by the City of Otsego.

The Township includes sewage capacity rights in the intangible assets of its business-type activities. These costs represent the Township's sewage capacity rights through the City of Plainwell.

Capital assets are depreciated or amortized using the straight-line method over the following useful lives:

Buildings and improvements	15 - 60 years
Equipment	3 - 15 years
Sewer and water systems	50 years
Intangible assets	5 - 25 years

iv) Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Township of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

v) Property tax revenue recognition - Property taxes are levied as of December 1 on property values assessed as of December 31 of the prior year. The billings are due on or before February 14, after which time the bill becomes delinquent and penalties and interest may be assessed by the Township. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Township considers property taxes levied December 1 to be revenues of the current period.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the functional level. All annual appropriations lapse at the end of the fiscal year. The Township had no significant budget variations.

NOTE 3 - CASH:

The Township's cash are as follows:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Fiduciary</u>	<u>Totals</u>
Cash	\$ 566,086	\$ 613,687	\$ 30,364	\$ 1,210,137

Deposits are carried at cost and are maintained at various financial institutions in the name of the Township. State statutes and the Township's investment policy authorize the Township to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations. The Township's deposits are in accordance with statutory authority. At March 31, 2005, the Township has deposits with a carrying amount of \$1,210,137 and a bank balance of \$1,219,626. Of the bank balance, \$234,131 is covered by federal depository insurance and \$985,495 is uninsured.

Township of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - RECEIVABLES:

At March 31, 2005, the Township's receivables were as follows:

	<u>Accounts</u>	<u>Interest</u>	<u>Property taxes</u>	<u>Special assess-ments</u>	<u>Inter-govern-mental</u>	<u>Totals</u>
Governmental activities:						
General Fund	\$ -	\$ 6,300	\$ 13,295	\$ -	\$ 51,268	\$ 70,863
Cemetery Fund	-	-	-	-	54,807	54,807
Total governmental activities	<u>\$ -</u>	<u>\$ 6,300</u>	<u>\$ 13,295</u>	<u>\$ -</u>	<u>\$ 106,075</u>	<u>\$ 125,670</u>
Business-type activities:						
Public Utilities Fund	<u>\$ 32,482</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 397,332</u>	<u>\$ -</u>	<u>\$ 429,814</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 360,332</u>	<u>\$ -</u>	<u>\$ 360,332</u>

All receivables are considered fully collectible.

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended March 31, 2005, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	<u>\$ 11,850</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,850</u>
Capital assets being depreciated:				
Land improvements	5,000	2,000	-	7,000
Buildings	227,565	-	-	227,565
Equipment	148,906	4,516	-	153,422
Intangible assets	<u>688,525</u>	<u>-</u>	<u>-</u>	<u>688,525</u>
Total capital assets being depreciated	<u>1,069,996</u>	<u>6,516</u>	<u>-</u>	<u>1,076,512</u>
Less accumulated depreciation for:				
Land improvements	(167)	(194)	-	(361)
Buildings	(62,204)	(5,258)	-	(67,462)
Equipment	(103,860)	(17,595)	-	(121,455)
Intangible assets	<u>(244,281)</u>	<u>(37,376)</u>	<u>-</u>	<u>(281,657)</u>
Total accumulated depreciation	<u>(410,512)</u>	<u>(60,423)</u>	<u>-</u>	<u>(470,935)</u>
Total capital assets being depreciated, net	<u>659,484</u>	<u>(53,907)</u>	<u>-</u>	<u>605,577</u>
Governmental activities capital assets, net	<u>\$ 671,334</u>	<u>\$ (53,907)</u>	<u>\$ -</u>	<u>\$ 617,427</u>

Township of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated -				
land	\$ 51,860	\$ -	\$ -	\$ 51,860
Capital assets being depreciated:				
Sewer and water systems	4,917,510	-	-	4,917,510
Equipment	46,889	-	-	46,889
Intangible assets	425,000	-	-	425,000
Total capital assets being depreciated	5,389,399	-	-	5,389,399
Less accumulated depreciation for:				
Sewer and water system	(550,864)	(98,340)	-	(649,204)
Equipment	(26,029)	(4,050)	-	(30,079)
Intangible assets	(30,600)	(17,000)	-	(47,600)
Total accumulated depreciation	(607,493)	(119,390)	-	(726,883)
Total capital assets being depreciated, net	4,781,906	(119,390)	-	4,662,516
Total business-type activities capital assets, net	\$ 4,833,766	\$ (119,390)	\$ -	\$ 4,714,376

Depreciation expense was charged to functions of the Township as follows:

Governmental activities:	
General government	\$ 20,977
Public safety	39,446
Total governmental activities	\$ 60,423

Township of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES:

Noncurrent liabilities, at March 31, 2005, is comprised of the following individual issues:

\$1,375,000 2000 Allegan County (Otsego Township) water supply and sewage disposal system contract payable - payable in annual installments ranging from \$25,000 to \$125,000, plus interest at 4.70% to 6.00%; final payment due May 2020	\$ 1,275,000
\$645,000 2004 Allegan County (Otsego Township) water supply and sewage disposal system contract payable - payable in annual installments ranging from \$35,000 to \$60,000, plus interest at 5.10% to 5.70%; final payment due May 2016	<u>610,000</u>
Total noncurrent liabilities	<u>\$ 1,885,000</u>

a) *Noncurrent liability activity for the year ended March 31, 2005, was as follows:*

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts Due within one year</u>
Business-type activities:					
1996 contract payable	\$ 950,000	\$ -	\$ (950,000)	\$ -	\$ -
2000 contract payable	1,300,000	-	(25,000)	1,275,000	-
2004 contract payable	-	645,000	(35,000)	610,000	-
Total business-type activities	<u>\$ 2,250,000</u>	<u>\$ 645,000</u>	<u>\$ (1,010,000)</u>	<u>\$ 1,885,000</u>	<u>\$ -</u>

b) *Debt service requirements at March 31, 2005, were as follows:*

Year ended March 31:	<u>Principal</u>	<u>Interest</u>
2006	\$ -	\$ 47,117
2007	85,000	177,522
2008	110,000	198,610
2009	105,000	189,204
2010	130,000	209,082
2011 - 2015	655,000	961,795
2016 - 2020	675,000	804,046
2021	<u>125,000</u>	<u>128,750</u>
Totals	<u>\$ 1,885,000</u>	<u>\$ 2,716,126</u>

Township of Otsego
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - DEFINED CONTRIBUTION PENSION PLAN:

The Township provides pension benefits for substantially all of its employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Michigan state statute assigns the authority to establish and amend benefit provisions to the Township Board of Trustees. Employees are eligible to participate from the date of employment. Contributions range from \$200 to \$3,600 per employee, at a rate of \$100 per \$1,000 of compensation. The Township's contributions are fully vested immediately. The Township is not a trustee of the plan, nor is the Township responsible for investment management of plan assets.

The Township made the required contributions of \$22,415 for the fiscal year ending March 31, 2005.

NOTE 8 - INTERFUND TRANSFERS:

A summary of interfund transfers for the year ended March 31, 2005, is as follows:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Public Utilities	\$ 25,000	General	\$ 105,000
Cemetery	80,000		
	<u>105,000</u>		
General	30,993	Trash	30,993
	<u>\$ 135,993</u>		<u>\$ 135,993</u>

The transfer to the Public Utilities Fund represents unrestricted revenues from the General Fund to pay for the water tower debt service principal.

The transfer to the Cemetery Fund represents unrestricted revenues from the General Fund to help pay for operational costs of the cemetery.

The transfer to the General Fund represents restricted revenues collected in the Trash Fund to pay for operational costs of trash collection accounted for in the General Fund.

NOTE 9 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for each of these claims and is neither self-insured nor participates in a shared-risk pool. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Township of
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 10 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended March 31, 2005, is as follows:

Revenues	\$ 79,812
Expenses	<u>80,683</u>
Deficiency of revenues over expenses	<u>\$ (871)</u>

NOTE 11 - PRIOR PERIOD ADJUSTMENT:

A prior period adjustment has been recorded in 2004 that resulted in fund balance restatement of the General Fund. Fund equity of the General Fund as of April 1, 2004, included in the financial statements, represents the restated balance as presented below. The following schedule identifies the nature and amount of the adjustment recorded.

Fund balance - beginning, as previously reported	\$ 625,578
Prior period adjustment - understatement of payables	<u>(33,695)</u>
Fund balance - beginning, as restated	<u>\$ 591,883</u>

NOTE 12 - CHANGE IN ACCOUNTING PRINCIPLES:

Effective April 1, 2004, the Township implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. In connection with the implementation of this statement, the following adjustments to beginning net assets have been made to reflect the cumulative effect of this accounting change:

Net assets as previously reported	
General and special revenue funds	\$ 660,451
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	<u>671,334</u>
Net assets, as restated	<u>\$ 1,331,785</u>

REQUIRED SUPPLEMENTARY INFORMATION

Township of Otsego
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended March 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Taxes	\$ 153,143	\$ 156,627	\$ 160,374	\$ 3,747
Licenses and permits	73,130	88,130	90,196	2,066
State grants	352,518	352,518	347,323	(5,195)
Charges for services	9,872	16,592	15,640	(952)
Interest and rentals	12,000	12,000	16,277	4,277
Other	40,845	48,620	7,143	(41,477)
Total revenues	<u>641,508</u>	<u>674,487</u>	<u>636,953</u>	<u>(37,534)</u>
EXPENDITURES				
Legislative	<u>5,429</u>	<u>5,479</u>	<u>5,170</u>	<u>309</u>
General government:				
Supervisor	45,739	45,739	43,880	1,859
Election	10,000	10,000	6,038	3,962
Assessor	30,800	30,800	29,430	1,370
Clerk	28,133	28,133	26,365	1,768
Board of review	1,500	1,500	763	737
Treasurer	27,633	27,633	26,480	1,153
Hall and grounds	27,000	28,901	28,901	-
Other	77,350	77,350	64,480	12,870
Total general government	<u>248,155</u>	<u>250,056</u>	<u>226,337</u>	<u>23,719</u>
Public safety:				
Fire protection	92,350	94,350	91,537	2,813
Inspections	54,000	71,750	71,572	178
Total public safety	<u>146,350</u>	<u>166,100</u>	<u>163,109</u>	<u>2,991</u>
Public works:				
Highways and streets	120,000	120,000	74,613	45,387
Street lights	1,450	1,450	1,174	276
Drains	10,000	15,252	15,242	10
Refuse collection	72,000	74,390	37,016	37,374
Engineering	10,000	10,000	6,710	3,290
Total public works	<u>213,450</u>	<u>221,092</u>	<u>134,755</u>	<u>86,337</u>

Township of Otsego
BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)
Year ended March 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Community and economic development - planning and zoning	<u>\$ 37,277</u>	<u>\$ 38,292</u>	<u>\$ 29,108</u>	<u>\$ 9,184</u>
Recreation and culture - community education	<u>14,000</u>	<u>14,000</u>	<u>14,000</u>	<u>-</u>
Capital outlay	<u>16,000</u>	<u>16,000</u>	<u>6,855</u>	<u>9,145</u>
Total expenditures	<u>680,661</u>	<u>711,019</u>	<u>579,334</u>	<u>131,685</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(39,153)</u>	<u>(36,532)</u>	<u>57,619</u>	<u>94,151</u>
OTHER FINANCING SOURCES (USES)				
Operating transfer in - Trash Fund	32,865	32,865	30,993	(1,872)
Operating transfers out:				
Cemetery Fund	(88,000)	(88,000)	(80,000)	8,000
Public Utilities Fund	<u>(50,000)</u>	<u>(50,000)</u>	<u>(25,000)</u>	<u>25,000</u>
Total other financing sources (uses)	<u>(105,135)</u>	<u>(105,135)</u>	<u>(74,007)</u>	<u>31,128</u>
NET CHANGE IN FUND BALANCES	<u>(144,288)</u>	<u>(141,667)</u>	<u>(16,388)</u>	<u>125,279</u>
FUND BALANCES - BEGINNING	<u>591,883</u>	<u>591,883</u>	<u>591,883</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 447,595</u>	<u>\$ 450,216</u>	<u>\$ 575,495</u>	<u>\$ 125,279</u>

Township of Otsego
BUDGETARY COMPARISON SCHEDULE - Cemetery Fund
Year ended March 31, 2005

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Contribution from local unit	\$ 51,257	\$ 51,257	\$ 54,807	\$ 3,550
Charges for service	26,000	29,500	28,849	(651)
Interest	400	550	481	(69)
Other	100	50	50	-
Total revenues	<u>77,757</u>	<u>81,357</u>	<u>84,187</u>	<u>2,830</u>
EXPENDITURES				
General government	156,750	156,750	149,621	7,129
Capital outlay	-	-	414	(414)
Total expenditures	<u>156,750</u>	<u>156,750</u>	<u>150,035</u>	<u>6,715</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(78,993)	(75,393)	(65,848)	9,545
OTHER FINANCING SOURCES				
Operating transfer in - General Fund	<u>88,000</u>	<u>84,400</u>	<u>80,000</u>	<u>(4,400)</u>
NET CHANGE IN FUND BALANCES	9,007	9,007	14,152	5,145
FUND BALANCE - BEGINNING	<u>68,568</u>	<u>68,568</u>	<u>68,568</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 77,575</u>	<u>\$ 77,575</u>	<u>\$ 82,720</u>	<u>\$ 5,145</u>

SUPPLEMENTARY DATA

Township of Otsego**SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS****\$645,000 2004 WATER SUPPLY AND SEWAGE DISPOSAL****SYSTEM CONTRACT PAYABLE***March 31, 2005*

<i>Fiscal period</i>	<i>Interest rate</i>	<i>Interest</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
		<i>May 1</i>	<i>November 1</i>			
2006	2.000%	\$ -	\$ 10,861	05/01/05	\$ -	\$ 10,861
2007	2.500%	10,861	10,424	05/01/06	35,000	56,285
2008	3.000%	10,424	9,524	05/01/07	60,000	79,948
2009	3.250%	9,524	8,630	05/01/08	55,000	73,154
2010	3.375%	8,630	7,702	05/01/09	55,000	71,332
2011	3.375%	7,702	6,858	05/01/10	50,000	64,560
2012	3.500%	6,858	5,983	05/01/11	50,000	62,841
2013	3.625%	5,983	5,167	05/01/12	45,000	56,150
2014	3.800%	5,167	3,837	05/01/13	70,000	79,004
2015	3.900%	3,837	2,570	05/01/14	65,000	71,407
2016	4.100%	2,570	1,238	05/01/15	65,000	68,808
2017	4.125%	1,238	-	05/01/16	60,000	61,238
		<u>\$ 72,794</u>	<u>\$ 72,794</u>		<u>\$ 610,000</u>	<u>\$ 755,588</u>

Township of Otsego**SCHEDULE OF ANNUAL PRINCIPAL AND INTEREST REQUIREMENTS****\$1,375,000 2000 WATER SUPPLY AND SEWAGE DISPOSAL****SYSTEM CONTRACT PAYABLE***March 31, 2005*

<i>Fiscal period</i>	<i>Interest rate</i>	<i>Interest</i>		<i>Maturity date</i>	<i>Principal</i>	<i>Total requirements</i>
		<i>May 1</i>	<i>November 1</i>			
2006	5.00%	\$ -	\$ 36,256	05/01/05	\$ -	\$ 36,256
2007	5.10%	36,256	34,981	05/01/06	50,000	121,237
2008	5.20%	34,981	33,681	05/01/07	50,000	118,662
2009	5.25%	33,681	32,369	05/01/08	50,000	116,050
2010	5.30%	32,369	30,381	05/01/09	75,000	137,750
2011	5.35%	30,381	28,375	05/01/10	75,000	133,756
2012	5.40%	28,375	26,350	05/01/11	75,000	129,725
2013	5.50%	26,350	24,288	05/01/12	75,000	125,638
2014	5.60%	24,288	22,188	05/01/13	75,000	121,476
2015	5.70%	22,188	20,050	05/01/14	75,000	117,238
2016	5.80%	20,050	17,150	05/01/15	100,000	137,200
2017	5.90%	17,150	14,200	05/01/16	100,000	131,350
2018	5.90%	14,200	11,250	05/01/17	100,000	125,450
2019	6.00%	11,250	7,500	05/01/18	125,000	143,750
2020	6.00%	7,500	3,750	05/01/19	125,000	136,250
2021	6.00%	3,750	-	05/01/20	125,000	128,750
		<u>\$ 342,769</u>	<u>\$ 342,769</u>		<u>\$ 1,275,000</u>	<u>\$ 1,960,538</u>